

External Environment Surrounding Daiseki

Since our founding, we have consistently developed our business by anticipating current and future needs. Even in today's world characterized by volatility, uncertainty, complexity, and ambiguity (VUCA), this commitment remains unwavering. As environmental issues increasingly emerge as critical challenges in the business landscape, we will continue to identify both risks and opportunities in pursuit of a sustainable society as an environmental value-creation company.

01 Key External Environmental Factors

Politics

- Global momentum toward carbon neutrality and increasingly stringent requirements to reduce emissions across the entire supply chain
- Government initiatives promoting the circular economy, including the enactment of the Act Concerning Sophistication of Recycling Business, etc.
- Stricter management of hazardous chemicals such as PFAS and strengthened environmental regulations on water quality and soil contamination

Economy

- Structural weakness in demand in Japan's heavy industries, including the cement industry, which is a major destination for recycled products
- Rising resource and energy prices amid geopolitical risks, alongside ongoing consolidation and closure of domestic manufacturing plants
- Supply chain restructuring and the reshoring of manufacturing in response to the weaker yen and heightened geopolitical risks
- Companies setting targets for the use of recycled materials

Society

- Progress in waste reduction and in-house treatment by manufacturers as the transition to a circular economy accelerates
- Increasing labor shortages caused by the decline in Japan's working-age population and the growing impact of the logistics industry's "2024 problem"

Technology

- The emergence of new technologies for resource separation, recovery, and reuse utilizing biotechnology, including microorganisms, and advanced materials such as metal-organic frameworks (MOFs)^{*1}
- Progress in the automation and streamlining of supply chains and factory operations through digital technologies (DX), including AI, IoT, and robotics

Key External Environment Keywords

- Waste reduction in the manufacturing industry
- Circular economy
- Carbon neutrality

02 Anticipated Risks

Risk of stagnation or disruption of existing recycling schemes due to consolidation, closure, or declining demand at cement plants and other major customers for recycled products

Declining demand resulting from customers' waste reduction initiatives and increased in-house waste treatment

Pressure on profit margins caused by prolonged inflation, including rising fuel and electricity costs and outsourced transportation expenses

Trends in Industrial waste generation and recycling rates

Due to the contraction of Japan's manufacturing sector and rising environmental awareness, the volume of industrial waste is expected to remain flat or decline slightly. Meanwhile, the recycling rate of industrial waste has plateaued in recent years, while the complexity of waste treatment continues to increase.

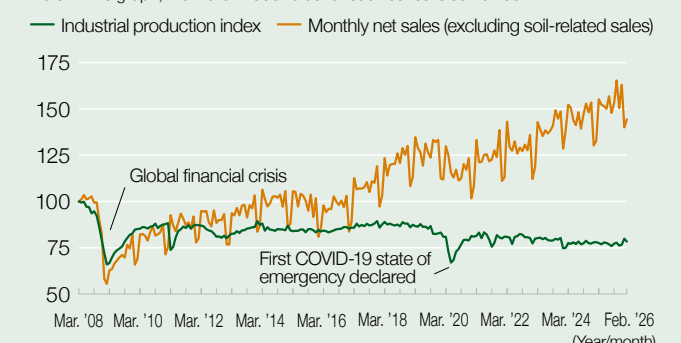


Source: Ministry of the Environment, State of Generation and Treatment of Industrial Waste in FY2024 (April 1, 2023—March 31, 2024)

Trends in the industrial production index and net sales

The industrial production index, an indicator of production activity in the manufacturing sector that forms Daiseki's customer base, has been on a downward trend.

Note: In the graph, the March 2008 value for each series is set to 100.



Source: Daiseki, Financial Results for the Fiscal Year Ended February 28, 2026 (68th fiscal year)

03 Opportunities and Response Measures

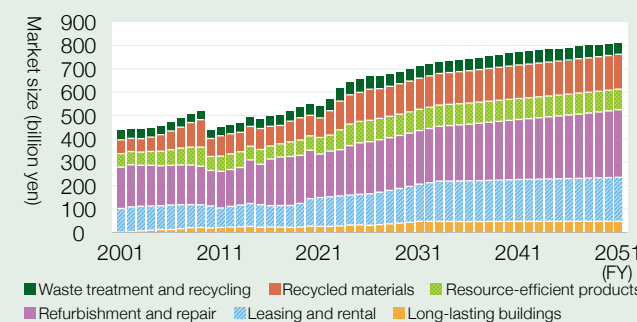
Growing demand for consulting services that provide manufacturers with comprehensive support for resource circulation from the product design stage onward

Government initiatives promoting the circular economy and companies setting targets for the use of recycled materials

Provision of industrial waste treatment services that help customers reduce their Scope 3 emissions

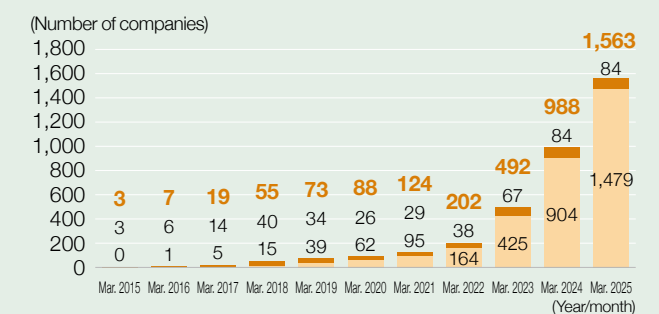
Market size

The market for the waste treatment and resource utilization sector as a whole is expected to continue expanding toward 2050.



Companies in Japan participating in the science based targets initiative (SBTi)

The number of companies with SBTi-validated targets covering Scope 3 emissions is increasing. This trend is expected to drive greater demand for Daiseki's lower-carbon industrial waste treatment services.



04 Key Initiatives

Review management strategies in anticipation of changes in the external environment over the next 10 and 20 years

Leverage MOF technology acquired through a business transfer, together with collaboration within and outside the Group, to become a solution-oriented company that supports manufacturing

As the external environment undergoes rapid change, Daiseki will accurately anticipate society's needs 10 and 20 years into the future and continuously evolve its business, human capital, and financial strategies. By strengthening collaboration among Daiseki Group companies, we will gain deeper insight into customer needs and provide a broader range of solutions. For technologies and capabilities that are not available within the Daiseki Group, we will leverage external partnerships and M&A to continue evolving into a solution-oriented company that provides multifaceted support for companies' manufacturing activities.

^{*1} MOF (metal-organic framework): A porous material formed through coordination bonds between metal ions and organic molecules. As a next-generation material, it can selectively adsorb and separate gases and other substances.